



Australian Government

**Department of Families, Housing,
Community Services and Indigenous Affairs**

Mr Tom Leuner
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Australian Energy Regulator
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By Email To: AERInquiry@aer.gov.au

NATIONAL HARDSHIP INDICATORS

Dear Mr Leuner

FaHCSIA welcomes the opportunity to comment on the Australian Energy Regulator's issues paper to develop National Hardship Indicators. Thank you for accepting a late submission. Unfortunately we only recently became aware of your consultation process.

Our department's purpose is to improve the lives of Australians by creating opportunities for economic and social participation by individuals, families and communities. We note the importance of appropriate hardship policies for the vulnerable who have difficulty managing energy bills. Several areas of the department have an interest in the proposed indicators arising from their areas of policy responsibility.

I have included some information about FaHCSIA to place our comments on your proposed hardship indicators in context. Senior staff from several branches have indicated their willingness to meet with you, and we would be pleased to nominate a representative to participate on your stakeholder panel.

Yours sincerely

Sean Innis
Group Manager
Social Policy Group

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About FaHCSIA

The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) is the Australian Government's main source of advice on social policy and manages about one fifth of the federal budget.

FaHCSIA works in partnership with other government and non-government organisations managing a diverse range of programs and services designed to support and improve the lives of Australians.

FaHCSIA is well placed to assist in developing a definition of financial hardship due to our role in developing a broad range of social policies, including Income Support, Family Assistance, Commonwealth Financial Counselling, Emergency Relief and Closing the Gap in Indigenous Disadvantage. FaHCSIA also has a lead role in promoting women's economic security and the provision of affordable housing and a focus on improving capacity for vulnerable people and communities to participate economically and to manage life transitions.

Comments on the proposed National Hardship Indicators

Definition of financial hardship

FaHCSIA notes the Issues Paper does not have a clear definition of financial hardship. Providing a clear definition would help to ensure that nationally consistent and comparable policies are generated across energy retailers and may help to prevent financial hardship resulting in energy disconnection. We note that disconnection affects client's credit ratings, which then exacerbates their financial hardship.

The proposed hardship indicators do not directly relate to rules for access to the hardship programs that individual retailers manage. Rather, the hardship indicators are intended to provide national high level reporting of data that indirectly suggests aspects of outcomes of hardship programs.

Demographic data

It is apparent that the account holder does not represent the whole household and the demographic characteristics of the primary account holder alone will only deliver a partial picture. To be useful, demographic characteristics of the account holder's household are necessary.

Ideally, demographic characteristics would be included as an indicator in this work. This would presumably mean, though, that customers accessing support for financial or fuel hardship would need to provide information on their household composition. FaHCSIA acknowledges that privacy issues arise and therefore it is important to obtain a balance between what demographic information can be obtained, whilst minimising the burden of data collection.

Where this is seen as too much of an imposition on customers, it will be important to consider conducting a baseline survey of financial or fuel hardship with regular updates to inform analysis of the indicators.

In 2006, the UK Government conducted an assessment of fuel poverty in England. This included a series of indicators about the household (age, sex, marital status, working status of the primary reference person and any partner and the ages of any dependent children). This would be a useful precedent for this process.

Identification of at-risk groups

FaHCSIA notes that the proposed indicators do not include demographic characteristics of those suffering financial hardship, and there appears to be no intention to identify which groups of people are at risk of financial or fuel hardship. Understanding the households that suffer hardship will provide retailers with the opportunity to better design their programs and assist retailers in early identification of those customers at risk. This data would also enable analysis to inform our understanding of social inclusion and hardship in Australia.

Indigenous clients

There are currently no specific indicators in place for the Northern Territory or Indigenous communities to monitor outcomes under hardship policies and programs, as FaHCSIA understands hardship policies are not available in these areas. Further work could be incorporated into the Issues Paper to include:

- community-based indicators or hardship programs prepared by Indigenous communities in conjunction with government and industry to support greater Indigenous participation in the energy sector;
- Indigenous customers being provided with a reasonable level of advice about strategies for managing electricity consumption;
- effective educational and training regimes to ensure an adequate and suitably skilled workforce.

Hardship programs

The stated focus of the assistance program is to educate those who have been in financial hardship with payment options, to assist with cash flow problems and to build understanding around energy usage. FaHCSIA supports these aims as the program should assist those in financial hardship to improve their financial capability.

The Issues Paper's main focus on payment options for customers is secondary to more key components of energy efficiency, financial literacy, and referral to financial counsellors or appropriate assistance, for customers experiencing financial hardship. The focus on debt collection rather than financial literacy and inclusion may not lead to the desired outcomes. A focus on these key components may lead to overall improvements in a customer's financial position, which should be reflected in fewer instances of financial hardship experienced by customers.

As the paper notes, there are many programs that energy retailers could refer clients to, such as the programs run by Centrelink's Financial Information Service and the FaHCSIA funded Commonwealth Financial Counsellors and Money Management Workers. In addition, Centrepay is an established mechanism for assisting customers to meet their financial commitments.

There are also numerous government assistance programs such as the appliance replacement program and energy subsidy programs that could be promoted to the participants of the hardship program. Providing energy audits for customers in financial hardship could also assist in educating customers about energy use, to assist in becoming more energy efficient consumers. Improving linkages between these programs would improve responsiveness to those in financial hardship and may improve program and client outcomes. FaHCSIA is aware from feedback from financial counsellors and emergency relief provider that utilities bills are a recurring factor in clients seeking assistance.

FaHCSIA suggests retailers could consider mandatory referral to financial counsellors for customers entering a hardship program.

FaHCSIA considers it worthwhile for energy retailers to submit anonymous cases or examples of good practice, on an annual basis, which would accompany the NHI data. This would provide a better understanding of how the hardship programs are assisting clients. A nationally agreed minimum set of standards to enable best practice sharing of stories would be helpful.

Data issues

To provide much more detailed insight than would be available from average levels of debt from the same group of customers at their entry and exit points, it is suggested that retail providers should provide movements in debt levels on a much more disaggregated basis – to indicate numbers (or proportions) of customers along (for example) the following lines:

- Customers for whom the individual level of debt rose (or remained unchanged), or fell, between the entry and exit points; and
- The extent of the respective increases or decreases by ranges, for example: falls between 75–100%; between 51–75%; between 26–50%; between 1–25%; nil movement; rises between 1–25%, 26–50% and so on.

In contrast to AER's view against requiring reporting on the time customers have been on hardship programs, it seems common sense (to an outside observer) to require retail providers to collect and report on the duration of time for which customers are on hardship programs. We concede AER's point that 'average length of time' on hardship program may not be particularly meaningful. An alternative, and intrinsically meaningful, basis for reporting on this matter would be to report not just an average length of time, but additionally the numbers or proportions of customers on programs for ranges of time periods (for example, up to 1–3 months, 4–6 months, and so on).

At several points in the discussion on the rationale for particular indicators, it is suggested that alternative explanations might be deduced for movements in an indicator; for example 'Total number of customers currently on the hardship program'.

It is open to question how providers might be able to provide robust interpretations of such movements unless they have additional information on the customers concerned and the reasons for their presence in or departure from the program. For example,

- what is the principal source of each customer's income (income support/pension), superannuation, income from employment or self-employment, living on savings (if not currently employed or retired),
- has the customer recently sustained a significant drop, or recovery, in income and if so, is this attributable to factors intrinsic to the customer (for example, major illness or period out of work between jobs) or to extrinsic factors such as reduced business or work volume due to an economic recession or economic fluctuations in a local community;
- has the customer incurred substantial unexpected and urgent expenditure, for example on family health expenses, or car or house repairs, that have limited their capacity to pay energy bills on time;
- non-economic factors, for example have customers experienced unexpected surges (possibly non-recurring) in energy consumption due to seasonal climatic extremities.

Arising from the above, it seems that the ability of retail providers to provide evidence-based, as opposed to speculative, commentary on movements in the indicators (an expectation of AER in the Issues Paper) implies that they would need to have access to considerable additional information on customers in hardship programs – beyond the scope of just submitting data on the formal indicators that might be required by AER.

In the absence of AER deciding that it should require providers to report additional information on drivers of movements in customers in hardship programs (beyond the scope of the nine indicators proposed), it follows that AER would need to state explicitly that providers would need to collect such information internally to enable them to monitor such customers meaningfully and to provide AER with the substantively-based commentary – albeit of a qualitative character – that the paper implies will be required on various indicators.

Summary

FaHCSIA is supportive of the development of hardship provisions under the National Energy Customer Framework and is keen to assist with the further development of the proposed hardship indicators. In particular we like to see a focus on:

- the appropriateness of rules for access to hardship programs – do these rules ensure that those in greatest need have access;
- the characteristics of those accessing hardship programs (beyond whether they receive government concessions);
- the actual types of assistance provided under hardship programs.

FaHCSIA would also welcome the opportunity to monitor any hardship data (particularly locational data) collated by the AER as it would assist policy development and advice, including policy advice about the services designed to support people in financial difficulty. Data obtained at the Statistical Local Area level in particular would assist FaHCSIA in this regard. FaHCSIA considers it appropriate that collection and reporting of data is also performed on a state-by state basis, but able to be synthesised to the national level consistent with an agreed NHI framework.